ARTICLE APPEARED ON PAGE D-17

NEW YORK TIMES
25 JANUARY 1983

Any Decline Soon in Oil Prices May Be Small, Analysts Say

STAT

By H. ERICH HEINEMANN

The breakdown of the OPEC meeting in Geneva yesterday has set the stage for a slight decline in oil prices and a further cutback in production by Saudi Arabia and its allies on the Arabian Peninsula, energy economists said yesterday.

But a sharp drop in the price of oil from the current world average of about $33 for a 42-gallon barrel appeared unlikely — at least for the present, the economists said. The current price among members of the Organization of Petroleum Exporting Countries is based on $34 for Saudi Light crude.

Total oil production by Saudi Arabia and its neighbors has declined to about 8.5 million barrels a day, from an average of 13.7 million in 1980, as they have tried to maintain their price structure despite the abundance of oil in world markets. That has prompted other OPEC producers to discount prices in order to sell their oil.

If Saudi Arabia makes an attempt to maintain prices — and is successful — then the decline may be modest. But even a small decline could prove a mixed blessing.

A Double Effect

On the plus side, lower prices may increase business activity and lower inflation, among other benefits. The negatives focus on the possibility of loan defaults by nations such as Mexico, which depends on oil revenues to meet debt payments, and reduced demand for industrial products by the 13 OPEC nations.

According to Herbert W. Krupp, senior energy economist for the Bankers Trust Company in New York, there are these three major options available to the nations of the Arabian Peninsula — Saudi Arabia, Kuwait, the United Arab Emirates and Qatar:

¶An official price cut of a dollar or two plus stated ceilings on their output. "Such price realignment would be combined with a threat of further price reductions," Mr. Krupp said, linking "the carrot of protected export volumes for non-Gulf producers with the stick of threatened production increases and further price cuts."

¶A significant reduction in prices and increases in production. The hope, he said, would be to "coerce" other producers into relinquishing a share of the market in a new agreement on output and prices. "This threat has not worked before," Mr. Krupp noted.

¶Price discounts, special credit terms or barter arrangements with major customers as disguised price reductions. "However," Mr. Krupp said, "if the Gulf producers erode confidence in their official prices, then widespread discounting could ultimately be far more serious."

Saudi Arabia Again the Key

In an interview, Mr. Krupp said that whatever happened, "Bankers Trust believes that OPEC will be successful in avoiding a significant price break through 1983 and beyond."

A senior energy economist for the Federal Government, who asked not to be identified, agreed with Mr. Krupp's analysis that Saudi Arabia and its allies still held the key.

He added, however: "I happen to think the present price structure is not in the Saudis' long-term interest, and that a lower price *is* in their interest. If they hold oil prices over $30 a barrel, that would result in a relatively low share of the world oil market, and — over time — lower revenues."

According to data compiled by William L. Randol, international energy analyst for the First Boston Corporation, from the Central Intelligence Agency, OPEC's share of world oil production has dropped from about 50 percent in 1979 to less than 35 percent in the second quarter of 1982.

Spokesmen for the Exxon Corporation and Texaco Inc., two of the four partners in the Arabian American Oil Company, which produces and buys most of Saudi Arabia's oil, had no comment on yesterday's developments in Geneva. "This is too sensitive," an Exxon official said.

But a senior economic adviser to another of the nation's largest oil companies, who agreed to be interviewed if he were not identified, argued that it made sense for Saudi Arabia to try to maintain oil prices at current levels.

"If we get an economic recovery this year, as I expect," he said, "then this oil surplus won't look anywhere near so bad six months from now. My advice would be to try to hold the line, and hope for a pick-up in demand."

Richard O'Brien, chief economist of the American Express International Bank in London, told a news briefing in New York yesterday that the fears of major international financial disruption from loan defaults set off by lower oil prices had been "overdone." Economic growth in the main industrial nations would accelerate substantially as a result of a sharp drop in oil prices to, say, $25 a barrel, without any adverse impact on inflation, he added.

Donald H. Straszheim, who is in charge of short-term projections at Wharton Econometric Forecasting Associates, strongly supported Mr. O'Brien's view. "A lower oil price has to be a plus," he said.

Effects on Banking System

Nonetheless, serious concerns remain that a sharp price drop would indeed pose severe problems.

According to James Schlesinger, former Secretary of both Defense and Energy as well as Director of Central Intelligence, "the oddity is that largely because of the run-up in oil prices, we have an international financial system and an international economy that are in a parlous state."

"There are a whole set of things that would be benefited, and a whole set of things that would be harmed," he continued. "What I fear at the moment as I look at Mexico, as I look at Canada, which is in a 'delicate' condition, that the more sensitive relations may be the ones that would be harmed. Admittedly, this would be a great boon for the Germans and Japanese, which are purely oil importing nations, but they are not in as sensitive a shape."

Mr. Schlesinger concluded: "Volatility in oil prices may be worse in its impact than high prices, particularly in its impact on the international financial system."